CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 11, 2006

S. 3521
Stop Over Spending Act of 2006

As ordered reported by the Senate Committee on the Budget on June 22, 2006

SUMMARY

S. 3521 would establish several new procedures related to the budget process. Included among them are a new expedited procedure for considering Presidential proposals to cancel certain spending and tax provisions in newly enacted legislation, limits on discretionary spending, a deficit target that if exceeded could lead to an across-the-board cut of mandatory spending (known as sequestration), biennial budgeting, a commission to review and analyze spending for the three major entitlement programs of Social Security, Medicare, and Medicaid, a commission to help the Congress review the performance of federal agencies, and various process reforms.

CBO estimates that establishing the new commissions would cost $30 million between 2007 and 2011, assuming appropriation of the necessary amounts. The rest of S. 3521, by itself, would not have any significant impact on the budget; however, enforcement of provisions in this bill could result in measures that reduce the deficit.

S. 3521 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and—by itself—would have no impact on the budgets of state, local, or tribal governments. Any budgetary impacts would depend on subsequent legislative action.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3521 is shown in the following table. The costs of this legislation fall within budget function 800 (general government).

	By Fiscal Year, in Millions of Dollars				
	2007	2008	2009	2010	2011
CHANGES IN SPENDING SUBJECT TO APPROPRIATION					
Establish National Commission on Entitlement Solvency					
Estimated Authorization Level	2	0	0	0	0
Estimated Outlays	2	0	0	0	0
Establish Commission on Congressional Budgetary Accountability and Review of Federal Agencies					
Estimated Authorization Level	3	6	8	8	4
Estimated Outlays	2	6	8	8	4
Total Changes					
Estimated Authorization Level	5	6	8	8	4
Estimated Outlays	4	6	8	8	4

MAJOR PROVISIONS

Title I - Legislative Line Item Veto

Title I of the bill would establish a procedure for the President to propose cancelling specified discretionary budget authority, items of direct spending, or targeted tax benefits (defined as any provisions of a revenue bill that provide a federal tax benefit to a particular taxpayer or limited group of taxpayers) and for Congressional consideration of such proposals. The President would transmit a special message to both Houses of Congress specifying the project or governmental functions involved, the reasons for the proposed cancellations, and—to the extent practicable—the estimated fiscal, economic, and budgetary effect of the action. The Congress could then approve or disapprove the President's proposals in legislation. (If approved, any such proposed cancellations would then become law.)

Under S. 3521, the President could submit up to four special messages per year. A message would have to be transmitted to the Congress within one calendar year of enactment of the legislation containing the items proposed for cancellation. Within two days of receiving a special message, the majority or minority leaders of the House and Senate (or their designees) would be required to introduce a bill to approve the proposed cancellations; that approval bill would be considered under expedited procedures. S. 3521 also would amend the Congressional Budget Act to require that CBO prepare an estimate of savings in budget authority and outlays resulting from any cancellations proposed by the President (the Joint Committee on Taxation would prepare estimates of the savings from repeal of targeted tax benefits).

Additionally, the President could withhold discretionary budget authority proposed for cancellation and suspend items of direct spending and targeted tax benefits for 45 days from the date on which a special message is transmitted.

Title II - Deficit Reduction

Title II of S. 3521 would attempt to restrain the federal deficit by implementing procedures that affect spending. The bill would create limits on discretionary budget authority for 2007 through 2009 with a sequestration procedure to ensure compliance; it would also reinstate sequestration procedures for mandatory spending in the event that prescribed targets for the deficit are exceeded. Both CBO and the Office of Management and Budget (OMB) would be required to produce reports on specified dates that track compliance with the discretionary limits and maximum deficit amounts. In addition, the Government Accountability Office would produce a report, upon request by the budget committee of the House or Senate, that indicates whether the requirements of this title have been complied with.

The bill would set limits on new discretionary budget authority at $873 billion for 2007 (the amount already approved for next year by both the House and Senate), $895 billion for 2008, and $920 billion for 2009. Those figures may be increased for spending designated as an emergency, but such designations are limited to $90 billion for 2007, $50 billion for 2008, and $30 billion for 2009. If actual appropriations exceed the statutory limit for a given year (adjusted for emergency spending), each discretionary account would be reduced by a uniform percentage to eliminate the breach.

Title II also sets a ceiling for the federal deficit, expressed as a percentage of gross domestic product (GDP). For 2007, the deficit would have to remain below 2.75 percent of GDP as estimated by OMB ($379 billion using CBO's January 2006 economic forecast). The maximum deficit would ratchet down to 0.5 percent of GDP in 2012 ($88 billion using CBO's January 2006 economic forecast).

Both CBO and OMB would be required to produce reports to determine whether a breach of the maximum deficit amount is anticipated to occur. A preview report would be issued by OMB with the President's budget submission; CBO's preview report would be completed five days before that submission. In mid-August, both agencies would prepare reports to identify whether across-the-board cuts of discretionary or mandatory spending would be necessary. A third set of reports would be completed within 10 to 15 days after the end of a Congressional session.

If OMB determines in its August report that the maximum deficit amount for a given year will be exceeded, an automatic reconciliation process would go into effect. Such a process would be similar to the current reconciliation process but with set dates by which action must be taken. The budget committees would issue directives to reduce spending by September 15 to the various committees who would have to report back recommendations within 20 days. If a committee failed to report legislation sufficient to meet its directive, the budget committee could recommend changes within the jurisdiction of that committee.

If the Congress and the President fail to enact an automatic reconciliation bill with savings that meet the deficit target or if the target is not met for other reasons, the President would be required to issue an order to implement an across-the-board cut of mandatory spending to eliminate the gap (as calculated by OMB). Such a sequestration would not include Social Security or any activities specified as exempt in the most recent budget proposed by the President.

Title III - Biennial Budgeting and Appropriations

S. 3521 would convert the annual budget, appropriation, and authorizing process to a two-year cycle. In the first year of the biennium, the President would submit a budget, the Congress would prepare a budget resolution, and appropriation bills would be considered. Authorizing legislation would be considered after the budget resolution, biennial appropriation bills, and any reconciliation bills are completed.

Points of order requiring only a simple majority would be created against an appropriation bill that failed to provide funding for two years and for authorizations that cover fewer than two years. The bill would also make other changes to conform agencies' requirements under federal laws governing performance and other reporting procedures to the biennial schedule.

Title IV - Commissions

Title IV would establish two commissions—the National Commission on Entitlement Solvency and the Commission on Congressional Budgetary Accountability and Review of Federal Agencies. The first commission would conduct a review of Social Security, Medicare, and Medicaid to identify long-term solvency problems, analyze solutions, and provide recommendations. The second commission would establish a method for assessing the performance of all federal agencies and provide recommendations on program performance, including any programs that should be realigned or terminated.

Each commission would consist of 15 members, who would serve without pay, but would be reimbursed for travel expenses. In addition, the commissions could hire staff or use personnel from other agencies. The National Commission on Entitlement Solvency would have eight months to report on its findings and recommendations, while the Commission on Congressional Budgetary Accountability and Review of Federal Agencies would report to the Congress annually over the 2007-2011 period. Each commission would terminate 90 days after submitting its final report.

Based on the costs of similar commissions, such as the President's Commission to Strengthen Social Security, CBO estimates that implementing the National Commission on Entitlement Solvency would cost $2 million in 2007, assuming appropriation of the necessary funds.

Using information from the Office of Management and Budget about its Program Assessment Rating Tool, data about the costs to implement the Government Performance and Results Act of 1993, and the actual costs of similar commissions, CBO estimates that implementing the Commission on Congressional Budgetary Accountability and Review of Federal Agencies would cost $2 million in 2007, rising to $8 million by 2009, primarily for staff to conduct analysis. Once fully operational, CBO expects that the commission would have a staff of about 40 people. CBO expects the agency would take about three years to reach that level of effort.

In total, CBO estimates that establishing the two commissions would cost $4 million in 2007 and $30 million over the 2007-2011 period, assuming the appropriation of the necessary amounts.

Title V - Budget Process Reforms

S. 3521 also contains many provisions related to the Congressional budget process. The legislation would implement some procedural and substantive changes to the budget resolution, including some limits on debate and a requirement that budget authority and outlays be allocated to authorizing committees rather than by budget function. It would also modify some procedures related to reconciliation; among them would be permission for the budget committees to report out amendments to reconciliation submissions from an authorizing committee if that committee has failed to meet its instructions and a limit on the creation of new spending in such bills.

In addition, S. 3521 would create a new enforcement tool related to Medicare funding that would supplement a related provision included in the Medicare Modernization and Prescription Drug Act of 2002. If the general fund contribution to Medicare is projected by the chairman of the Senate Committee on the Budget to exceed 45 percent within the next seven years, S. 3521 would permit the chairman to submit a Medicare funding warning to the Senate. If the chairman has submitted such a warning for two consecutive years, a point of order would stand against any legislation with new mandatory spending that is not offset. The warning would be withdrawn if legislation is passed that reduces the general fund contribution to below 45 percent.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 3521 contains no intergovernmental or private-sector mandates as defined in UMRA and—by itself—would have no impact on the budgets of state, local, or tribal governments. Any budgetary impacts would depend on subsequent legislative action.

ESTIMATE PREPARED BY:

Federal Costs: Jeffrey Holland and Matthew Pickford
Impact on State, Local, and Tribal Governments: Teri Gullo
Impact on the Private Sector: Fatimot Ladipo

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis